

FINAL BILL REPORT

SHB 2804

C 226 L 06

Synopsis as Enacted

Brief Description: Modifying the property tax exemption for nonprofit schools and colleges.

Sponsors: By House Committee on Finance (originally sponsored by Representatives Conway, Holmquist, Serben, McIntire, Ahern, McDermott, Rodne, Buri, McDonald, McCune and Dunn; by request of Office of the Lieutenant Governor).

House Committee on Finance

Senate Committee on Ways & Means

Background:

All property in this state is subject to the property tax each year based on the property's value, unless a specific exemption is provided by law. Several property tax exemptions exist for nonprofit organizations.

Property owned by or used for a nonprofit school or college is exempt from property tax. The exempt property must not exceed 400 acres in extent and must be limited to buildings and grounds designed for the educational, athletic, or social programs of the institution, the housing of students, the housing of religious faculty, the housing of the chief administrator, and athletic buildings. Other school or college facilities are exempt if the facilities are principally designed to further the educational functions of the institution and if the need for the facilities would be nonexistent but for the presence of the school or college.

Nonprofit tax-exempt property must be used exclusively for the activity for which the exemption is granted, unless one of the following exceptions applies:

- The property may be used for fund-raising activities without jeopardizing the exemption if the fund-raising activities are consistent with the purposes for which the exemption is granted.
- The property may be loaned or rented to an organization that would be exempt from tax if it owned the property.
- Museums and performing arts centers may be rented to entities not eligible for property tax exemption for up to 25 days each year.
- Museums and performing arts centers may be used for pecuniary gain or to promote business activities for seven days or less each year.
- Property owned by war veterans associations may be used for pecuniary gain or to promote business activities for three days or less each year.

- Public assembly halls and meeting places may be used for pecuniary gain or to promote business activities for seven days or less each year and also may be used for dance lessons, art classes, or music lessons for any number of days in counties under 10,000 in population.

If rent is charged for the use of nonprofit tax-exempt property, the rent must be reasonable and not exceed maintenance and operation expenses.

If nonprofit property is used in a manner inconsistent with the requirements above, the property will lose its tax-exempt status and back taxes will be due. For a nonprofit foundation that supports an institution of higher education, taxes which would have been paid during the previous seven years must be repaid. For all other nonprofit organizations, taxes which would have paid during the previous three years must be repaid. Interest is due on repayments of back taxes.

Summary:

The property tax exemption for a nonprofit school or college is nullified for the assessment year if the property is used by an individual or organization not entitled to a property tax exemption, unless one of the following exceptions apply: (1) The property may be used by students, alumni, faculty, staff, or other persons in a manner consistent with the educational, social, or athletic programs of the school or college. (2) The school or college may contract for food services for students, faculty and staff, the operation of a bookstore on campus, and related maintenance, operational, or administrative services. (3) The school or college may allow uses for pecuniary gain or to promote business activities for not more than seven days in a calendar year for each portion of the property. Sports or educational camp uses conducted by faculty members do not count against the seven days.

Any rent or donations received by the college or school for use of the property must be reasonable and not exceed maintenance and operation expenses.

An inadvertent use of the property in a manner inconsistent with school or college purposes will not nullify the exemption, if the inadvertent use is not part of a pattern of use.

Votes on Final Passage:

House	98	0
Senate	47	0

Effective: June 7, 2006